THE PRINCE EDWARD ISLAND ECONOMY

PROGRESS REPORT 2001

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Economics, Statistics and Federal Fiscal Relations Division
Provincial Treasury

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INTRODUCTION

This economic report summarizes the available statistical information concerning the progress of the Prince Edward Island economy in 2001. Most of the available data at this time cover the period January to September and do not include events subsequent to September 11, 2001. The Island economy is referenced in the context of the national and international economic perspective. Emerging trends in economic indicators such as labour, population, prices, consumer spending, manufacturing, construction and the primary industries are identified and discussed.

The current data show growth of the provincial economy slowing from the brisk expansion that has occurred since 1997. Employment growth on the Island was also at a slowing rate, and less people were unemployed in 2001 than 2000. Consumer price inflation on the Island slowed relative to 2000, as oil prices moderated.

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NATIONAL AND INTERNATIONAL ECONOMIC PICTURE

Growth of the global economy was weak from the last quarter of 2000 to the third quarter of 2001. The economy in the United States was showing signs of slowing growth in 2001 and preliminary estimates released by the U.S. *Bureau of Economic Analysis* show that the economy contracted by 0.4 per cent at annual rates in the third quarter of 2001. This compares with annual economic growth in the United Sates of 4.1 per cent in 1999 and 2000. Concern over weakness in the manufacturing sector, declining stock market values and economic weakness generally caused the *U.S. Federal Reserve Bank* to lower the federal funds rate a total of seven times from 6.5 per cent in January to 3.5 per cent in August 2001. The impact of the terrorist attacks on September 11 has led to further interest rate reductions to date. The monthly U.S. unemployment rate has been rising through 2001 from 4.2 per cent in January to 5.4 per cent in October 2001.

Economic growth in Canada slowed from an annualized rate of 1.8 per cent in the first quarter of 2001 to 0.4 per cent in the second quarter. Recent remarks by David Dodge, Governor of the *Bank of Canada*, indicate that economic growth in Canada in the second half of 2001 will be zero or

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slightly negative and that overall growth in 2001 is estimated at about 1.5 per cent. This economic forecast contrasts with economic growth in Canada of 5.1 per cent in 1999 and 4.4 per cent in 2000. This slowing pace of economic expansion in Canada is related to reduced business investment, declining exports, most notably to the United States, and weaker household spending. Declining exports of energy products and high-technology products were affected by the slowing U.S. economy. The rise in imports was principally in energy and automotive products.

In the past year the TSE 300 fell 34 per cent from its September 2000 peak. In response to the weakening economy, the *Bank of Canada* reduced its target for the overnight lending rate, in a series of steps, from 6.0 per cent to 2.75 per cent. According to the *Conference Board of Canada*, the Index of Consumer Attitudes declined by 5.1 per cent in the third quarter of 2001. Consumer confidence during the first three quarters of 2001 was 5.5 per cent lower than in the same period last year. The main reason for this drop was respondents' negative views on future job prospects. The Board noted that confidence levels fell in all regions of the country, with the exception of Atlantic Canada.

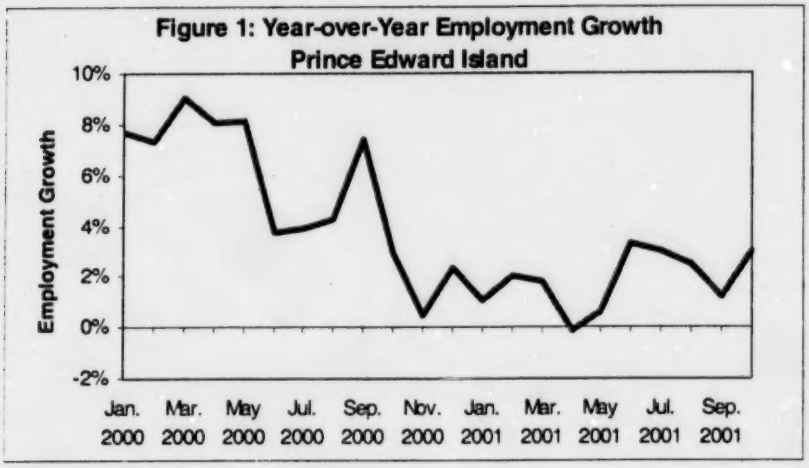
Year-to-date growth of national employment was 1.3 per cent in October and the unemployment rate stood at 7.3 per cent. Personal incomes rose by 4.8 per cent during the first six months of 2001. On a year to date basis, in 2001 the consumer price index rose by 3.0 per cent compared to the annual increase of 2.7 per cent in 2000. While energy price increases moderated in 2001, the price level of all other items has increased at a faster rate and accounts for the overall increase in prices in 2001 compared to the previous year.

THE ISLAND ECONOMY

Data available at time of publication showed that the PEI economy in the first eight to nine months of 2001 was expanding in the 1.5 to 2.0 per cent range, in line with the forecast in the 2001 Budget. At that time it was felt that the main risk to the economic outlook for 2001 was the impact of the export ban on PEI potatoes to the United States that had been in effect from October 2000. The potato export ban was relaxed in April 2001, allowing for limited potato exports to the United States, and was lifted in August 2001. The impact of the trade in potatoes on the economy has subsequently been overtaken by the economic effect of terrorist attacks in the United States on September 11. Consequently economic forecasters have lowered their growth estimates for 2001. The *Royal Bank of Canada* now estimates that the Island economy will expand by 1.0 per cent in 2001. This rate of expansion compares with recent annual growth rates of 5.6 per cent in 1998, 3.8 per cent in 1999 and 3.0 per cent in 2000, as reported by *Statistics Canada*.

The following sections of this report detail current trends in the various sectors of the Island economy.

LABOUR MARKETS



Statistics Canada, cat. no. 71-001-XIB

As Figure 1 indicates, employment growth on Prince Edward Island has slowed from the fast pace of a year ago. Between January and October 2001 employment rose by an average of 1,180 jobs, an increase of 1.8 per cent. This compares with employment growth of 5.2 per cent in 2000. Employment in the service sector grew by 2.5 per cent in 2001, while the goods-producing sector employment fell slightly by 0.3 per cent due to reduced employment in the agricultural sector. Employment gains in the service sector were highlighted by increases in professional, scientific, technical and education services.

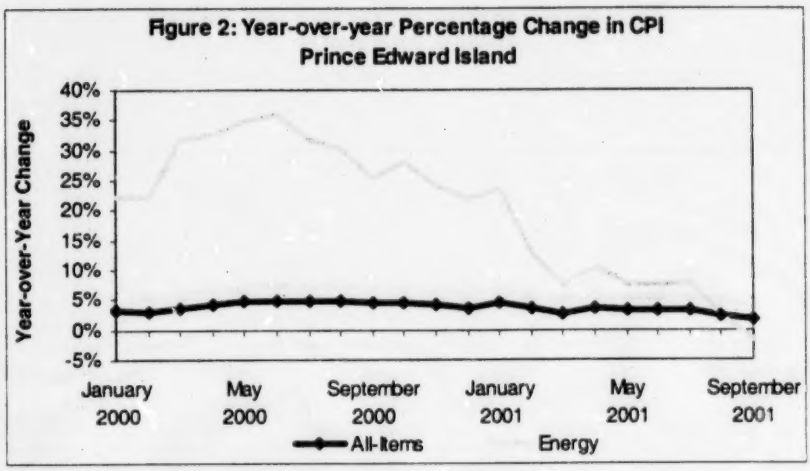
The seasonally adjusted unemployment rate dipped to its lowest level in over twenty years at 10.0 per cent in June of this year. The average year-to-date unemployment rate from January to October was 11.8 per cent, a declined by 0.2 percentage points compared to last year. The monthly unemployment rate in October stood at 12.4 per cent.

POPULATION

Statistics Canada estimates that the Prince Edward Island population totalled 138,514 people on July 1, 2001 compared to 138,065 a year earlier. During the twelve month period ending on June 30, 2001, the provincial population expanded by 449 people, or 0.3 per cent. Fifty-three per cent of this increase is attributed to natural increase (births minus deaths), down from 59 per cent a year earlier. Net inter-provincial migration accounted for 16 per cent of the increase, down from 22 per cent in 2000, while net international migration in 2001 made up 31 per cent, as compared to 19 per cent in 2000.

In June 2001 a federal-provincial agreement to promote international immigration to Prince Edward Island was signed. Its objective is to increase the number of international immigrants settling on the Island to about 200 persons per year, over a five-year period.

CONSUMER SPENDING AND PRICES



Statistics Canada, cat. no. 62-001-XIB

The *All-Items Consumer Price Index* (CPI) for Prince Edward Island increased by 3.1 per cent during the first nine months of 2001, compared with an annual increase of 4.1 per cent for 2000. The year-over-year increases in the monthly energy price index on PEI that occurred in 2000 resulted from rising prices for gasoline and home-heating oil. These increases continued in 2001 but at lower rates.

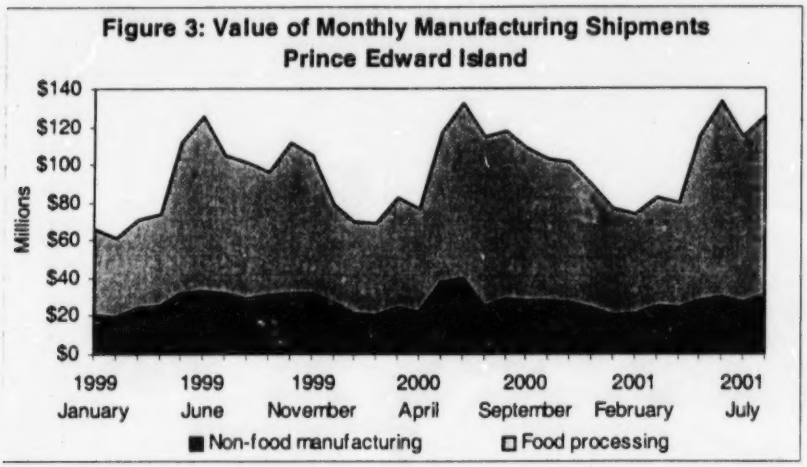
The average price of regular gasoline at self serve stations on PEI, as measured by Statistics Canada, rose through 2000 and reached a high of 79.3 cents per litre in January 2001. The average price for regular self serve gasoline on PEI in November, as regulated by the Island Regulatory and Appeals Commission, is 67.1 cents per litre.

The retail sector continued to expand in 2001 with several new major retail outlets moving to the Island. Seasonally adjusted retail sales on Prince Edward Island were valued at $850 million during the first eight months of 2001, an increase of 4 per cent over the same period last year. This compares to an annual growth rate of 6.4 per cent in 2000. During the period, January to August 2001, the value of new motor vehicles sales fell by 7.2 per cent to value $83.1 million. In 2000 the value of new vehicle sales increased by 3 per cent.

PERSONAL INCOMES

Total labour income earned on Prince Edward Island grew moderately, at 3.2 per cent during the first six months of 2001 compared with the national average of 4.8 per cent. In keeping with the reduced rate of employment gains, total labour income growth was subdued on the Island during the first few months of 2001, compared with the rapid increase of 8.4 per cent set during 2000.

MANUFACTURING



The value of manufacturing shipments on Prince Edward Island advanced by 2.6 per cent during the first eight months of 2001 compared with the same period last year. This compares with an annual growth rate of 6.7 per cent in 2000. The value of manufactured food products grew by 6.2 per cent on the strength of processed potato products, while processed fish products decreased by 1.3 per cent after advancing by 20 per cent in 2000. The variability in the monthly value of manufacturing shipments is due to the seasonal nature of the food-processing industry (see Figure 3). Non-food manufacturing declined by 6.3 per cent in value as aerospace and wood processing showed declines of 2.3 per cent and 11.2 per cent, respectively. A decline in wood prices was a contributing factor to the recent closure of PEI's largest wood processing mill in Georgetown.

INTERNATIONAL TRADE

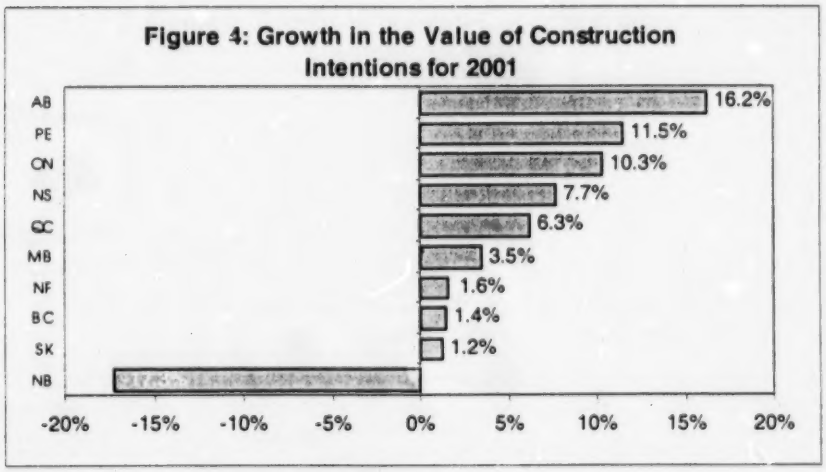
The value of international exports of goods from Prince Edward Island for the first eight months of 2001 was $430.1 million, a decline of 5.6 per cent compared to the same period in 2000. The main reason for the decline in exports was the ban on raw Island potatoes to the United States, followed by a decline in the export value of fish products. The value of exported raw potatoes during the first eight months of 2001 was $11.4 million compared with $29.4 million in the same period last year, a decline of 61.7 per cent. The United States banned PEI potatoes in October 2000 due to an isolated case of potato wart that was found in one corner of one field. The ban on exports of raw PEI potatoes to the United States was relaxed in April allowing PEI potatoes to move into the U.S. under strict inspection requirements. The ban was lifted in August. Processed potato products, the Island's dominant international export, expanded by 12.7 per cent year-over-year to value $145.6 million. Recently, the United States took action to restrict trade by placing a duty on Canadian mussel and lumber imports.

TOURISM

In 2001 Prince Edward Island played host to the East Coast Music Awards and the International Boy Scouts Jamboree. Both events attracted a great deal of interest from residents and visitors alike. Also, among the new attractions that opened during the 2001 tourist season was Founders' Hall. Constructed in a former railcar workshop, it houses displays on Canadian and Island heritage, provides ample space for meetings, and boasts an upscale restaurant.

According to preliminary estimates provided by *Tourism PEI*, there was a modest increase of 2.8 per cent in the number of visitor parties during the period May to August 2001 from last year. On average these parties spent 9 per cent more than in 2000. Estimates of total visitor expenditures during this period showed an increase of 12 per cent over last year.

CONSTRUCTION AND HOUSING



Statistics Canada, cat. no. 61-206-XPB

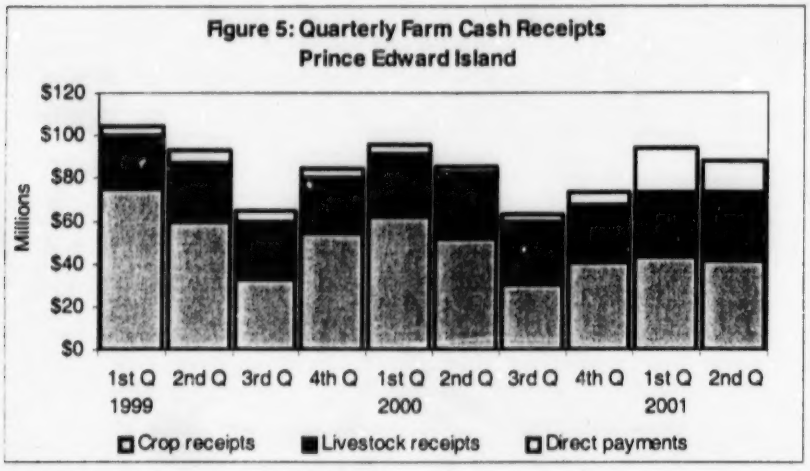
According to Statistics Canada's revised *2001 Private and Public Investment Intentions*, construction activity on Prince Edward Island continued the rapid rate of expansion that was recorded in 2000. Growth in construction is forecast to be 11.5 per cent this year. As Figure 4 indicates, PEI's construction activity ranks second in the nation in the terms of expansion, behind Alberta. This is the second year in a row that PEI has been a leader in construction growth.

Building permits issued during the first nine months of 2001 totalled $166.5 million, for an increase of 120 per cent compared to the same period last year. Major construction projects in 2001 included resort accommodations, the Atlantic Technology Centre, business park expansions and new retail space in the Charlottetown area; also a waste treatment facility in Brookfield, and school and hospital construction in Summerside.

Total housing starts during the period January to September 2001 declined by 8 per cent from the level reached one year ago. The year-to-date number of housing starts totalled 498 units in September 2000 to 458 units one year later.

PRIMARY INDUSTRIES

AGRICULTURE



Statistics Canada, cat. no. 21-603-XPB

Total farm cash receipts were up by 0.5 per cent in the first six months of 2001 to value $182.4 million. Potato receipts for the same period were valued at $75 million, down by $29 million or 28 per cent, but as shown in Figure 5, direct government support to farmers increased significantly. An increase in direct payments of $28 million in the first two quarters of 2001 was largely a result of provincial and federal compensation to potato farmers affected by the potato wart. Livestock receipts have improved by 2.2 per cent over last year to total $62.2 million. This was the result of a rebound in hog receipts of 16.2 per cent and a 1.8 per cent increase in dairy receipts. These gains were partially offset by a 11.1 per cent decline in cattle receipts.

The planted acreage of the 2001 potato crop, as estimated by Statistics Canada, shows no change from last year at 109,000 acres. That the lack of precipitation during the growing season has reduced potato yields for the 2001 crop by 35 to 40 per cent according to the PEI Potato Marketing Board. However, potato prices have begun to rise in light of a smaller supply.

FISHING

Preliminary data for the Island's fishing industry indicate that the total value of fish landings in 2001 is up by 5-7 per cent over last year's catch of $145 million. Improved lobster prices and a slight increase in landings have contributed to the 13.5 per cent increase in the value of the lobster catch that now exceeds $100 million for the first time in Island history. The value of Island mussel and oyster production is expected to increase slightly compared with the previous year. Volumes of herring and bluefin tuna landings were down because of reductions in fish quotas.

PROVINCIAL GOVERNMENT

On March 29, 2001, Provincial Treasurer Patricia Mella presented her fifth Budget Address and tabled budget estimates showing a surplus of $1.6 million in the 2001-02 fiscal year. Minister Mella, along with other provincial Finance Ministers, are continuing to pressure the federal government for improvements to the Equalization program and health funding.

CONCLUSIONS

Available data indicate that the Island economy was growing in the range of 1.5 to 2 per cent in 2001 prior to September. This is in line with the forecast of economic growth presented in the 2001 Provincial Budget and compares to growth of 3 per cent in 2000 and 3.8 per cent in 1999. Year-to-date monthly employment expanded by 1.7 per cent and the unemployment was 12.4 per cent in October 2001. Total labour income grew by 3.2 per cent over the first half of 2001 compared to the same period in 2000. The value of manufacturing shipments on Prince Edward Island rose by 2.6 per cent. Construction activity on Prince Edward Island in 2001 is forecast to maintain the rapid rate of expansion set last year. Consumer price inflation has moderated due to declining world oil prices. The rate of economic expansion in the United States and in Canada was evidently slowing prior to the events on September 11. The Provincial Treasury will monitor data from the post September 11 period as it becomes available to better estimate the trends in the Island economy.

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